2.22.25

HOME SALES

Would-be buyers frozen out by high rates

BY ALEX VEIGA

THE ASSOCIATED PRESS

*

LOS ANGELES>> Sales of previously occupied U.S. homes fell in January as rising mortgage rates and prices put off many would-be homebuyers despite a wider selection of properties on the market.

Sales fell 4.9% last month from December to a seasonally adjusted annual rate of 4.08 million units, the National Association of Realtors said Friday.

Sales rose 2% compared with January last year, marking the fourth straight annual increase. The latest home sales, however, fell short of the 4.11 million pace economists were expecting, according to FactSet.

Home prices increased on an annual basis for the 19th consecutive month. The national median sales price rose 4.8% in January from a year earlier to $396,900.

"Mortgage rates have refused to budge for several months despite multiple rounds of short-term interest rate cuts by the Federal Reserve," said Lawrence Yun, NAR's chief economist. "When combined with elevated home prices, housing affordability remains a major challenge."

The U.S. housing market has been in a sales slump dating back to 2022, when mortgage rates began to climb from pandemic-era lows. Sales of previously occupied U.S. homes fell last year to their lowest level in nearly 30 years.

The average rate on a 30-year mortgage briefly fell to a 2-year low last September, but has been mostly hovering around 7% this year, according to mortgage buyer Freddie Mac. That's more than double the 2.65% record low the average rate hit a little over four years ago.

While mortgage rates have been easing in recent weeks, the decline hasn't been enough to change the affordability equation for many prospective home shoppers. Home loan applications fell 5.5% last week from the previous week to the lowest level since the start of the year, according to the Mortgage Bankers Association.

Mortgage rates are influenced by several factors, including the yield on U.S. 10-year Treasury bonds, which lenders use as a guide to price home loans.

Fears that inflation may remain high amid a solid U.S. economy and the potential impact of tariffs and other policies proposed by the Trump administration have driven the 10-year Treasury yield higher since the election, though it has eased in recent weeks.Rising home prices and elevated mortgage rates, which can add hundreds of dollars a month in costs for borrowers, have kept many prospective home shoppers on the sidelines, especially first-time buyers who don't have equity from an existing home to put toward a new home purchase. They accounted for 28% of all homes sold last month, matching the share in January 2024, but down from 31% in December. The annual share of first-time buyers fell last year to a record-low 24%. It's been 40% historically.

If mortgage rates don't ease from current levels, first-time buyers will continue to struggle, "because housing affordability is not there," Yun said.

Forecasts from several economists mostly call for the average rate on a 30-year mortgage to remain above 6% this year, with some economists including an upper range as high as 6.8%.

Home shoppers who could afford to buy at current mortgage rates or pay all-cash to sidestep financing altogether had more homes to choose from last month. There were 1.18 million unsold homes at the end of last month, up 3.5% from December and up 16.8% from January last year, NAR said.

One reason the inventory of homes for sale has been rising is properties are taking longer to sell.

Homes typically remained on the market for 41 days in January before selling — the longest since before the pandemic. In December, homes were typically on the market 35 days before they sold.